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No. 08-90

Supreme Court, U.S.
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IN THE

Supreme Court of the United States

BAYER BIOSCIENCE N.V.,

Petitioner,

v.

MONSANTO COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

REPLY BRIEF

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STATEMENT PURSUANT TO RULE 29.6

Petitioner's corporate disclosure statement was set forth at page *ii* of its Petition for a Writ of Certiorari, and there are no amendments to that statement.

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Monsanto's Opposition Brief unfortunately misdirects this Court's consideration of the Petition by attempting to characterize Bayer as unworthy of having its claims reviewed on appeal. In so doing, Monsanto fails to address the significant questions presented regarding the Federal Circuit's expansion of its jurisdiction in derogation of limitations imposed by the "case or controversy" requirement of Article III of the Constitution and the statutory finality requirement for appeal.

Indeed, most of Monsanto's brief is devoted to asserting alleged facts and legal conclusions made by the district court, which were never even addressed, much less affirmed, by the Federal Circuit. As such, they are irrelevant to the questions presented to this Court except to the extent they demonstrate the serious injury resulting from the deprivation of Bayer's right to appellate review.

Bayer properly raised substantial challenges to the district court's conclusions of Bayer's alleged inequitable conduct regarding the dismissed patents in the appeal from the district court's final judgment awarding attorneys' fees under 35 U.S.C. § 285. Monsanto does not, and cannot, dispute that the only Constitutional or statutory basis for the district court's subject matter jurisdiction over these patents was the attorney fees statute, and that its findings of inequitable conduct were merely the first of several interlocutory steps to its ultimate decision whether to award fees under § 285. Accordingly, the decision below departs from this Court's precedents and conflicts with other Circuits interpreting parallel fee-shifting statutes by holding

that (1) the district court had jurisdiction to declare the dismissed patents unenforceable despite the lack of any case or controversy other than past attorney fees; and (2) Bayer had waived its right to appellate review of the interlocutory findings of inequitable conduct by properly waiting for the district court to render its final decision on whether to award attorney fees.

To support this alleged waiver of Bayer's appellate rights, the Federal Circuit necessarily found that the trial court had jurisdiction to declare the dismissed patents unenforceable under the Declaratory Judgment Act, 28 U.S.C. § 2201(a), despite the trial court's earlier undisputed ruling that a case or controversy no longer existed between the parties regarding these patents. No amount of Monsanto invective regarding Bayer's purported inequitable conduct can disguise the Federal Circuit's expansion of its jurisdiction, which is breathtaking in its scope and offense to the Constitutional and statutory limitations on federal judicial power.

Nor can Monsanto deflect the significance of the error below to patent cases across the nation, as well as to decisions under parallel fee-shifting statutes, by detailing irrelevant procedural facts or inappropriately denigrating Bayer's decision to await final judgment as part of a nefarious strategy of delay. The "case or controversy" requirement of Article III must be present at all times to sustain federal court jurisdiction, and the fact that there was a dispute at an earlier time is Constitutionally irrelevant. *Deakins v. Monahan*, 484 U.S. 193, 199 (1988). Awaiting final judgment cannot fairly be labeled a "strategy of delay."

Regarding the only patent in issue (the '565 patent), the Federal Circuit misapplied fundamental standards of appellate review and usurped the trial court's exercise of discretion. Monsanto obfuscates the Federal Circuit's serious error by characterizing the district court's only express finding of materiality as "discredited" and "immaterial," and implying, without support, that other findings supported the Federal Circuit's conclusion. To the contrary, the Federal Circuit found, and Monsanto cannot dispute, that the trial court's express finding of 'materiality' was "untenable", but then proceeded to affirm the decision by making its own independent and inaccurate analysis of the prosecution record of the patent. That the Federal Circuit independently reviewed the record and conducted an original analysis is clear from the record, as is the fact that the Federal Circuit's materiality argument was never proposed by any party and was never subjected to cross-examination. The Federal Circuit effectively granted its own summary judgment of inequitable conduct without any opportunity for Bayer to address the issue or point out the errors in the Federal Circuit's original analysis.

I. MONSANTO CONFUSES INTERLOCUTORY AND FINAL JUDGMENTS, AND CONCEDES THE FEDERAL CIRCUIT'S ERROR

Monsanto deflects from the significant jurisdictional errors below by repeating the uncontested assertion that the district court had jurisdiction to award attorney fees under 35 U.S.C. § 285 and, therefore, to make inequitable conduct determinations in the course of determining whether Monsanto was the "prevailing party." The statement is correct, but Monsanto's argument only demonstrates the fundamental error below.

Monsanto's arguments merely beg the question, and ignore the fact that Bayer *did* appeal from the trial court's final judgment granting attorney fees, and in that appeal Bayer raised substantial factual and legal errors that warranted reversal of the trial court's findings of inequitable conduct. For example, Bayer raised in that appeal that the trial court never mentioned, much less made any findings, regarding two of the four patents that it labeled as having been procured by inequitable conduct. However, the Federal Circuit refused to consider the merits of Bayer's appeal from the final judgment under 35 U.S.C. § 285, because it held that Bayer had waived these errors by failing to raise those issues in the appeal from the trial court's interlocutory finding of inequitable conduct.

Thus, Monsanto's argument actually proves the error below. The trial court had jurisdiction to enter final judgment under 35 U.S.C. § 285 determining the issues of exceptional case and grant of attorney fees. But any appeal from interlocutory findings that might support a finding of exceptional case had to be from a final judgment awarding attorney fees, and Bayer timely and properly appealed from that final judgment. Monsanto simply does not address the Article III Constitutional issue whether, *separate and apart from (and before) the entry of judgment under 35 U.S.C. § 285*, the federal courts have *independent* jurisdiction to enter final judgments of unenforceability (presumably under the Declaratory Judgment Act), simply because they are interlocutory findings in relation to what might ultimately result in the grant of attorney fees.

The fee-shifting statute, 35 U.S.C. § 285, authorizes only a single final judgment regarding attorney fees. Accordingly, if the fee-shifting statute, 35 U.S.C. § 285, is the source of judicial authority and jurisdiction, then the Federal Circuit has jurisdiction to consider the interlocutory inequitable conduct issues only in the course of appeal from a final judgment awarding attorney fees. Yet the Federal Circuit specifically refused to review these interlocutory findings when Bayer did take a timely and proper appeal from the attorney fees award. Instead, the Federal Circuit expanded Article III jurisdiction by holding that a trial court can enter a separate and distinct appealable final judgment of unenforceability independent of the final judgment of attorney fees under 35 U.S.C. § 285. As a result, Monsanto's arguments that 35 U.S.C. § 285 authorizes a court to grant attorney fees and determine inequitable conduct in doing so are unremarkable and irrelevant. The Federal Circuit's fundamental errors were finding that federal courts have jurisdiction independent of 35 U.S.C. § 285 to declare dismissed patents unenforceable despite the conceded lack of case or controversy regarding the dismissed patents, and that Bayer waived its right to challenge the interlocutory findings of inequitable conduct on appeal from the final judgment under 35 U.S.C. § 285.

II. NEITHER POTENTIAL COLLATERAL ESTOPPEL NOR EFFICIENCY JUSTIFY IGNORING ARTICLE III LIMITATIONS

Monsanto's Argument II asserts that "[p]atents resulting from inequitable conduct before the PTO should not be enforced under any circumstances," and that "the unenforceability conclusion does not require any separate inquiry or findings in addition to the inequitable conduct determination, but necessarily flows directly from such a holding." Brief in Opposition 29 ("Opp."). This statement is misleading because the Federal Circuit specifically refused to consider the merits of the factual and legal errors as to three of the four patents in suit, as a result of its Constitutional error. Thus, while everyone can agree that patents obtained through inequitable conduct are bad and should not be enforced, that does not justify denying a party a right to a fair trial and appeal to determine whether Bayer had engaged in inequitable conduct. Yet, Bayer was denied that fundamental right. Monsanto's argument is no different than saying that criminal defendants should not be afforded the right to appeal, because crimes are bad. Bayer was denied its right of appeal, because Monsanto led the Federal Circuit into Constitutional error. If the Federal Circuit had not improperly expanded Constitutional Article III jurisdiction to adjudicate the enforceability of patents over which there was no case or controversy, then the Federal Circuit would have considered Bayer's appeal on the merits, and would have reversed the finding of inequitable conduct.

Monsanto's next arguments build on this faulty foundation, to assert a "convenience exception" to Article III. Monsanto asserts in Argument II that

> If Bayer were to bring a future infringement suit on any patent held to have been procured by inequitable conduct in this case, the first motion in such future case would be a successful summary judgment of unenforceability due to issue preclusion based on the findings and holding already rendered in this case. There is no basis for Bayer's premise that a judgment of unenforceability based on the adjudicated inequitable conduct in this case must await such a collateral estoppel ruling in a future case rather than be entered now by the court that made the inequitable conduct ruling. Once there is a holding of inequitable conduct, there is no need or reason to delay entry of the unenforceability conclusion, and such issue is not worthy of this Court's review.

Opp. 31.

Monsanto's Argument III then proposes that this court disregard the Constitutional infirmities of the Federal Circuit decisions, because

> granting the petition or remanding to the Federal Circuit would serve no purpose other than to allow Bayer, the architect of this egregious inequitable conduct, to avoid accountability for its transgressions for even longer. Such an unnecessary remand would be

> an idle and useless exercise that is not worthy of this Court's involvement.

Opp. 35.

These arguments are, firstly, unfair, because the precise issue here is the denial of any appellate review on the trial court's erroneous findings for three of the four patents.

Second, and more fundamentally, Monsanto's arguments are unsupported by any prior authority of this or any other Court. The Constitution does not have a "convenience exception", and there is no precedent for allowing federal courts to enter judgments in matters that do not present a case or controversy, as a matter of convenience. While the trial court's interlocutory findings in this case, made in a fee shifting determination, may affect the future enforceability of the underlying patents, until a court is properly tasked with deciding the enforceability of those patents, Article III of the Constitution precludes a judgment on anything but the request for attorneys fees. No support exists for Monsanto's suggestion to ignore the Constitution and allow federal courts to use the fee-shifting statute to enter final judgments – separate from a judgment for attorney fees – on patents indisputably removed from the case and presenting no case or controversy.

III. REVERSAL OF THE TRIAL COURT'S MOST CRITICAL FINDING IS NOT IMMATERIAL OR INCONSEQUENTIAL

With respect to one of the four patents (and only that one patent), the Federal Circuit considered the merits of the trial court's inequitable conduct finding. The trial court found Bayer's withholding of certain handwritten notes by Dr. Mariani to be "highly material," because the trial court believed those handwritten notes disclosed the patented invention.[1] That finding was critical, because that was the trial court's sole stated basis for finding materiality of any conduct by Bayer in relation to that patent. The Federal Circuit rejected that conclusion by the trial court, recognizing that Dr. Mariani's handwritten notes did not disclose any DNA or protein, much less that of the invention. The Federal Circuit called the trial court's holding "untenable." App. 27a.[2]

Therefore, to affirm the trial court, the Federal Circuit found an entirely different, alternative basis for materiality. The Federal Circuit invoked a new theory,

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1. The Federal Circuit did not affirm any other finding in the District Court's 99-page opinion, except the 'highly material' view of the Barnes notes, with the following cascading effects: (1) the inference of fraudulent intent, (2) a finding of inequitable conduct, (3) a declaration that the '565 Patent is unenforceable, and (4) a finding of 'exceptional case' sufficient to award attorneys' fees.

2. The Federal Circuit expressly stated that "Bayer is correct that there is nothing in the record which would support a finding that the Bt toxin used by Barnes was identical to the Bt toxin claimed in the issued '565 patent."

which had never been argued by Monsanto in the trial court, had never been considered by the trial court, and was not raised to the Federal Circuit during briefing or argument.

Yet, Monsanto now characterizes the trial court's error as "immaterial" and equates it to a "discredited but inconsequential finding." Opp. 36. It then argues that "[t]he evidentiary and legal bases on which the Federal Circuit relied in affirming, the 'highly material' finding... were both specifically argued by Monsanto and expressly ruled upon by the district court." Opp. 38.

These conclusory arguments are meaningless. The trial court never suggested any basis for materiality of the Dr. Mariani's handwritten notes other than its admittedly erroneous statement that the notes disclosed the patented invention. Incredibly, Monsanto never identifies the alleged alternative bases found by the trial court. Instead, Monsanto merely boldly asserts that:

> The evidentiary and legal bases on which the Federal Circuit relied in affirming the "highly material" finding—i.e., that the arguments that Bayer made to the PTO about the Barnes prior art were known to be false, were directly contradicted by the undisclosed Mariani notes, and refuted or were inconsistent with Bayer's arguments for patentability—were both specifically argued by Monsanto and expressly ruled upon by the district court.

Opp. 38-39. Yet, Monsanto's citations are nothing more than quotes of its argument that Dr. Mariani's

handwritten notes contradicted Bayer's argument in the PTO – without ever identifying any inconsistent argument. The reason for Monsanto's failure is the plain fact that Monsanto never identified any inconsistent arguments. The trial court – left to its own devices in this absence of any other evidence – assumed that the "inconsistency" was between (1) Bayer's argument, that the prior art did not teach the patented invention, and (2) the trial court's "discredited" belief that Dr. Mariani's handwritten notes showed that Dr. Barnes' poster presentation disclosed the invention Bayer sought to patent. It is clear from the trial court's decision that its 'highly material' finding was solely premised on its "untenable" view that the withheld notes disclosed the invention and were, therefore, inconsistent with Bayer's arguments that Dr. Barnes never disclosed the invention.[3]

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3. The trial court articulated only the following facts in the "DISCUSSION" section for why the Dr. Mariani's handwritten notes regarding the Barnes presentation were allegedly important:

> The Court will not repeat the lengthy Mariani recitation from above, but *it is clear that the Barnes notes coded for the same 67 Kd toxic protein Bayer wanted to claim*, that the Barnes gene was 3.4 Kb for the full length, that because of the identified xho site, *it would be easy to determine the identity of the Bt gene being used*, and the chimeric gene used was toxic to insects by the drop.

App. 206a (emphasis added). This admitted misreading of Dr. Mariani's handwritten notes then produced the following equally flawed findings and conclusions:

> [t]he *Barnes notes by themselves*, withheld by Bayer from the PTO examiner, if disclosed, *would establish a*

(Cont'd)

Therefore, the trial court got it all wrong on the most critical issue of inequitable conduct. The Federal Circuit said that the trial court erred, and that error is conceded by Monsanto in this Petition.

Remarkably, despite its conclusory allegations that there was "something else," which Monsanto never identifies, that showed Bayer's fraud, Monsanto never addresses the Federal Circuit's only determination of "materiality." Bayer demonstrated in its Petition that the Federal Circuit's analysis had never been previously proposed by any party or court, but resulted from the Federal Circuit's own independent review of the record. The lack of such evidence or argument below should have given pause to any appellate court – because normally highly experienced counsel do not overlook meritorious arguments. An appellate court should defer to the trial court to make the most critical determination to support of a fraud, rather than make its own findings based on an analysis that was never tested in an adversarial proceeding.

(Cont'd)

> *prima facie case of unpatentability of Bayer's claims* under the '565 patent. . . . The information was *not cumulative* to information already of record in the application. . . . The Barnes notes are *highly material.* Bayer's *attempts to establish subjective good faith* sufficient to overcome the intent to mislead is *not persuasive.*

App. 206a (emphasis added).

Monsanto's decision to ignore the issue and its inability to support the Federal Circuit's analysis of materiality by any reference to such evidence or argument in the trial court, demonstrates that the Federal Circuit played simultaneously the roles of investigator, advocate and judge in finding materiality – the single most critical fact in the determination of inequitable conduct. This is less a "review" than a reversal of the roles the trial and appellate courts. This Court should tolerate such overreaching by a federal appellate court.

CONCLUSION

The Petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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